Amahlathi Local Municipality
(Registration number EC124)
Annual Financial Statements
for the year ended 30 June 2018

General Information

Grading of local authority	Grade 3
Accounting Officer	I Sikhulu-Nqwena
Chief Finance Officer (CFO)	L Manjingolo
Registered office	12 Maclean Street Stutterheim 4930
Postal address	Private Bag X 4002 Stutterheim 4930
Bankers	First National Bank Stutterheim
Auditors	Auditor-General South Africa
Mayoral Committee	P Qaba (Mayor) X Mngxaso (Exco) NC Nongqayi (Exco) N Busika (Exco) N Monti (Exco) T Balindlela (Exco)
Ward Councillors	NP Mlahleki (Speaker) S Malawu (MPAC chair) NA Kato-Manyika N Pose N Monti A Hobo RB Pickering N Ngxakangxaka GD Mxosa T Ngxingxolo P Ntwanambi D Mzili DS Gxekwa MN Ngcofe M Mjikelo EN Brukwe XM Tokwe NP Jikazayo X Nqata M Nqini VW Tshaka SG Venkile RT Desi GP Noxeke NA Mtati

General Information

Traditional leaders	AE Daka
	SN Mdledle
	NG Mekuto
	Z Ngudle
	K Sandile
	X Zake

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 85, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

I Sikhulu-Nqwena
Accounting Officer

Statement of Financial Position as at 30 June 2018

	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	3	1 368 013	1 368 347
Consumer debtors and other debtors	4	8 055 291	11 893 979
Receivables from non-exchange transactions	5	11 219 734	3 787 624
VAT receivable	6	-	3 968 304
Short-term portion of long term receivables	7	-	138 722
Cash and cash equivalents	8	6 922 101	72 049 611
		27 565 139	**93 206 587**
Non-Current Assets			
Biological assets that form part of an agricultural activity	9	3 620 874	1 358 970
Investment property	10	53 206 581	55 001 082
Property, plant and equipment	11	391 352 321	391 990 674
Intangible assets	12	1 137 791	1 569 609
Heritage assets	13	610 183	610 183
Long-term receivables	7	346 227	217 368
		450 273 977	**450 747 886**
Total Assets		**477 839 116**	**543 954 473**
Liabilities			
Current Liabilities			
Finance lease obligation	14	153 946	211 882
Payables from exchange transactions	15	26 879 072	25 664 557
Consumer deposits	16	1 846 920	1 765 529
Unspent conditional grants and receipts	18	979 345	1 673 566
Employee benefit obligation	17	12 346 657	12 826 442
Provisions	19	3 403 519	830 021
VAT payable	20	1 499 851	-
		47 109 310	**42 971 997**
Non-Current Liabilities			
Employee benefit obligation	17	33 388 676	36 471 718
Finance lease obligation	14	7 786	60 184
Provisions	19	404 176	404 176
		33 800 638	**36 936 078**
Total Liabilities		**80 909 948**	**79 908 075**
Net Assets		**396 929 168**	**464 046 398**
Accumulated surplus		396 929 168	464 046 398

Statement of Financial Performance

	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	21	36 814 962	38 005 716
Rental of facilities and equipment		473 304	826 666
Interest received - debtors		2 174 852	2 302 179
Licences and permits		915 085	-
Other revenue		1 293 398	502 711
Administration and management fees received		29 088	-
Interest received - investment	22	4 303 880	8 441 923
Total revenue from exchange transactions		**46 004 569**	**50 079 195**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	16 893 468	14 013 298
Transfer revenue			
Government grants and subsidies	24	133 811 298	146 621 652
Fines, Penalties and Forfeits		571 605	171 680
Motor vehicle registrations		2 743 877	3 051 706
Total revenue from non-exchange transactions		**154 020 248**	**163 858 336**
Total revenue		**200 024 817**	**213 937 531**
Expenditure			
Employee related costs	25	(122 772 005)	(112 135 015)
Remuneration of councillors	26	(12 242 827)	(11 561 289)
Vending management fee	27	(661 490)	(545 185)
Depreciation and amortisation	28	(29 535 717)	(29 037 532)
Impairment loss on non-current assets		(316 391)	(1 304 752)
Finance costs	29	(100 248)	(2 506 888)
Rentals - Printing machines		(81 266)	(193 757)
Debt Impairment	30	(10 352 410)	(7 916 439)
Leave pay provision		(367 328)	(1 654 652)
Bulk purchases	31	(27 072 041)	(26 164 717)
Contracted services	32	(7 498 413)	-
General expenses	33	(56 065 238)	(60 548 406)
Total expenditure		**(267 065 374)**	**(253 568 632)**
Operating deficit/Surplus		**(67 040 557)**	**(39 631 101)**
Loss on disposal of assets		(2 338 580)	(45 941 511)
Fair value gain on biological assets		2 261 904	542 667
Loss on disposal of biological assets and agricultural produce		-	(1 186 561)
		(76 676)	**(46 585 405)**
(Deficit) / Surplus for the period		**(67 117 233)**	**(86 216 506)**

Statement of Changes in Net Assets

	Accumulated surplus	Total net assets
Restated*Balance at 30 June 2016	**550 262 904**	**550 262 904**
Changes in net assets		
Deficit for the period	(86 216 506)	(86 216 506)
Total changes	(86 216 506)	(86 216 506)
Restated* Balance at 30 June 2017	**464 046 401**	**464 046 401**
Changes in net assets		
Deficit for the period	(67 117 233)	(67 117 233)
Total changes	(67 117 233)	(67 117 233)
Balance at 30 June 2018	**396 929 168**	**396 929 168**

Cash Flow Statement

	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from customers		51 695 094	47 848 135
Grants		132 763 766	146 621 652
Interest income		4 303 880	8 441 923
		188 762 740	202 911 710
Payments			
Employee costs		(141 277 050)	(117 445 396)
Suppliers		(83 085 273)	(80 225 996)
Finance costs		-	(2 506 888)
		(224 362 323)	(200 178 280)
Net cash flows from operating activities	35	**(35 599 583)**	**2 733 430**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(29 327 208)	(34 776 114)
Purchase of other intangible assets	12	-	(1 069 111)
Proceeds from sale of biological assets that form part of an agricultural activity	9	-	2 928 238
Decrease in long term receivables		9 863	143 288
Net cash flows from investing activities		**(29 317 345)**	**(32 773 699)**
Cash flows from financing activities			
Finance lease payments		(210 582)	(3 735 544)
Net decrease in cash and cash equivalents		**(65 127 510)**	**(33 775 813)**
Cash and cash equivalents at the beginning of the year		72 049 611	105 825 424
Cash and cash equivalents at the end of the year	8	**6 922 101**	**72 049 611**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	10 528	-	**10 528**	-	**(10 528)**	
Service charges	51 802 080	-	**51 802 080**	36 814 962	**(14 987 118)**	FinPerf1
Rendering of services	52 770	-	**52 770**	-	**(52 770)**	
Rental of facilities and equipment	1 394 976	-	**1 394 976**	473 304	**(921 672)**	FinPerf2
Investment revenue	2 640 000	-	**2 640 000**	2 174 852	**(465 148)**	FinPerf3
Licences and permits	2 217 600	-	**2 217 600**	915 085	**(1 302 515)**	FinPerf4
Miscellaneous other revenue	577 274	-	**577 274**	1 293 398	**716 124**	FinPerf5
Administration and management fees received	105 600	-	**105 600**	29 088	**(76 512)**	
Commissions received	116 160	-	**116 160**	-	**(116 160)**	
Other income - (rollup)	66 528	-	**66 528**	-	**(66 528)**	
Interest received - investment	6 800 000	-	**6 800 000**	4 303 880	**(2 496 120)**	FinPerf6
Total revenue from exchange transactions	**65 783 516**	**-**	**65 783 516**	**46 004 569**	**(19 778 947)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	16 770 392	-	**16 770 392**	16 893 468	**123 076**	
Transfer revenue						
Government grants and subsidies	133 309 000	1 137 477	**134 446 477**	133 811 298	**(635 179)**	FinPerf7
Fines, Penalties and Forfeits	54 912	201 088	**256 000**	571 605	**315 605**	FinPerf8
Motor vehicle registrations	1 848 000	-	**1 848 000**	2 743 877	**895 877**	FinPerf9
Total revenue from non-exchange transactions	**151 982 304**	**1 338 565**	**153 320 869**	**154 020 248**	**699 379**	
Total revenue	**217 765 820**	**1 338 565**	**219 104 385**	**200 024 817**	**(19 079 568)**	
Expenditure						
Employee related costs	(113 886 182)	-	**(113 886 182)**	(122 772 005)	**(8 885 823)**	FinPerf10
Remuneration of councillors	(13 243 862)	-	**(13 243 862)**	(12 242 827)	**1 001 035**	FinPerf11
Vending management fee	(532 250)	-	**(532 250)**	(661 490)	**(129 240)**	
Depreciation and amortisation	(26 000 000)	-	**(26 000 000)**	(29 535 717)	**(3 535 717)**	FinPerf12
Impairment loss on non-current assets	-	-	**-**	(316 391)	**(316 391)**	FinPerf13
Finance costs	(100 500)	50 000	**(50 500)**	(100 248)	**(49 748)**	
Lease rentals on operating lease	(340 000)	-	**(340 000)**	(81 266)	**258 734**	
Debt Impairment	(5 000 000)	-	**(5 000 000)**	(10 352 410)	**(5 352 410)**	FinPerf14
Leave pay provision	(41 865)	-	**(41 865)**	(367 328)	**(325 463)**	FinPerf15
Bulk purchases	(28 020 000)	(566 500)	**(28 586 500)**	(27 072 041)	**1 514 459**	FinPerf16
Contracted services	(6 612 500)	-	**(6 612 500)**	(7 498 413)	**(885 913)**	FinPerf17
Other expenditure	(60 170 068)	672 023	**(59 498 045)**	(56 065 238)	**3 432 807**	FinPerf18
Total expenditure	**(253 947 227)**	**155 523**	**(253 791 704)**	**(267 065 374)**	**(13 273 670)**	

Amahlathi Local Municipality

(Registration number EC124)
Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Operating deficit	**(36 181 407)**	**1 494 088**	**(34 687 319)**	**(67 040 557)**	**(32 353 238)**	
Loss on disposal of assets and liabilities	-	-	-	(2 338 580)	**(2 338 580)**	FinPerf19
Fair value gain on biological assets	-	-	-	2 261 904	**2 261 904**	FinPerf20
	-	**-**	**-**	**(76 676)**	**(76 676)**	
Deficit	**(36 181 407)**	**1 494 088**	**(34 687 319)**	**(67 117 233)**	**(32 429 914)**	
Deficit for the year from continuing operations	**(36 181 407)**	**1 494 088**	**(34 687 319)**	**(67 117 233)**	**(32 429 914)**	
Discontinued operations	68 346 707	(68 346 707)	-	-	-	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**32 165 300**	**(66 852 619)**	**(34 687 319)**	**(67 117 233)**	**(32 429 914)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	1 023 000	345 000	**1 368 000**	1 368 013	**13**	
Receivables from non-exchange transactions	3 796 000	3 960 000	**7 756 000**	11 219 734	**3 463 734**	FinPos1
Consumer debtors	6 905 000	4 989 000	**11 894 000**	8 055 291	**(3 838 709)**	FinPos2
Cash and cash equivalents	105 218 000	(33 175 000)	**72 043 000**	6 922 101	**(65 120 899)**	FinPos3
	116 942 000	**(23 881 000)**	**93 061 000**	**27 565 139**	**(65 495 861)**	
Non-Current Assets						
Biological assets that form part of an agricultural activity	4 931 000	(3 572 000)	**1 359 000**	3 620 874	**2 261 874**	FinPos4
Investment property	57 166 000	(2 165 000)	**55 001 000**	53 206 581	**(1 794 419)**	FinPos5
Property, plant and equipment	416 502 000	9 603 000	**426 105 000**	391 352 321	**(34 752 679)**	FinPos6
Intangible assets	759 000	811 000	**1 570 000**	1 137 791	**(432 209)**	FinPos7
Heritage assets	610 000	-	**610 000**	610 183	**183**	
Long-term receivables	499 000	(138 000)	**361 000**	346 227	**(14 773)**	
	480 467 000	**4 539 000**	**485 006 000**	**450 273 977**	**(34 732 023)**	
Total Assets	**597 409 000**	**(19 342 000)**	**578 067 000**	**477 839 116**	**(100 227 884)**	
Liabilities						
Current Liabilities						
Finance lease obligation	160 000	-	**160 000**	153 946	**(6 054)**	
Payables from exchange transactions	19 000 000	8 396 000	**27 396 000**	26 879 072	**(516 928)**	FinPos8
VAT payable	-	-	**-**	1 499 851	**1 499 851**	FinPos9
Consumer deposits	429 000	1 337 000	**1 766 000**	1 846 920	**80 920**	
Employee benefit obligation	14 452 000	(14 400 000)	**52 000**	12 346 657	**12 294 657**	FinPos10
Unspent conditional grants and receipts	-	-	**-**	979 345	**979 345**	
Provisions	5 500 000	8 155 000	**13 655 000**	3 403 519	**(10 251 481)**	FinPos11
	39 541 000	**3 488 000**	**43 029 000**	**47 109 310**	**4 080 310**	
Non-Current Liabilities						
Finance lease obligation	8 000	-	**8 000**	7 786	**(214)**	
Employee benefit obligation	242 000	(190 000)	**52 000**	33 388 677	**33 336 677**	FinPos12
Provisions	33 816 000	3 060 000	**36 876 000**	404 176	**(36 471 824)**	FinPos13
	34 066 000	**2 870 000**	**36 936 000**	**33 800 639**	**(3 135 361)**	
Total Liabilities	**73 607 000**	**6 358 000**	**79 965 000**	**80 909 949**	**944 949**	
Net Assets	**523 802 000**	**(25 700 000)**	**498 102 000**	**396 929 167**	**(101 172 833)**	
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	523 802 000	(25 700 000)	**498 102 000**	396 929 167	**(101 172 833)**	

Amahlathi Local Municipality
(Registration number EC124)
Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Cash receipts from customers	115 016 000	201 000	**115 217 000**	51 695 094	**(63 521 906)**	C1
Grants	133 309 000	1 138 000	**134 447 000**	132 763 766	**(1 683 234)**	
Interest income	9 440 000	(2 640 000)	**6 800 000**	4 303 880	**(2 496 120)**	C2
	257 765 000	**(1 301 000)**	**256 464 000**	**188 762 740**	**(67 701 260)**	
Payments						
Suppliers and employees	(225 520 000)	2 759 000	**(222 761 000)**	(224 362 323)	**(1 601 323)**	C3
Finance costs	(100 000)	50 000	**(50 000)**	-	**50 000**	
	(225 620 000)	**2 809 000**	**(222 811 000)**	**(224 362 323)**	**(1 551 323)**	
Net cash flows from operating activities	**32 145 000**	**1 508 000**	**33 653 000**	**(35 599 583)**	**(69 252 583)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(32 145 000)	229 000	**(31 916 000)**	(29 327 215)	**2 588 785**	C4
Decrease in long term receivables	-	-	**-**	9 869	**9 869**	
Net cash flows from investing activities	**(32 145 000)**	**229 000**	**(31 916 000)**	**(29 317 346)**	**2 598 654**	
Cash flows from financing activities						
Finance lease payments	-	-	**-**	(210 582)	**(210 582)**	
Net increase/(decrease) in cash and cash equivalents	-	1 737 000	**1 737 000**	(65 127 511)	**(66 864 511)**	
Cash and cash equivalents at the beginning of the year	105 825 000	(33 776 000)	**72 049 000**	72 049 611	**611**	
Cash and cash equivalents at the end of the year	**105 825 000**	**(32 039 000)**	**73 786 000**	**6 922 100**	**(66 863 900)**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Effective interest method

The municipality used the prime interest rate to discount future cash flows.

1.4 Biological assets that form part of an agricultural activity

The entity recognises biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

The fair value of the vine / pine plantations is based on the combined fair value of the land and the vines / pine trees.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

An unconditional government grant related to biological assets that form part of an agricultural activity measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Accounting Policies

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.5 Investment property (continued)

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	20 - 30 years
Roads and Paving	10 - 80 years
Air-conditioners	10 - 15 years
Other components	5 - 50 years

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

1.6 Property, plant and equipment (continued)

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Useful life
Infrastructure	Straight line	
• Roads and paving		10 - 80 years
• Cemeteries		25 - 30 years
• Airports		25 - 30 years
Community	Straight line	
• Capital work in progress		Not depreciated
• Land		Not depreciated
• Electricity		10 - 60 years
• Solid Waste Disposal		15 - 40 years
Other	Straight line	
• Buildings		25 - 30 years
• Machinery and equipment		4 - 15 years
• Computer equipment		
• Furniture and office equipment		5 - 7 years
• Transport assets		4 - 7 years
• Leased plant and office equipment		3 - 15 years
• Buildings airconditioning system		10 - 15 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

Accounting Policies

1.6 Property, plant and equipment (continued)

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Self Constructed Assets

The municipality changed its accounting policy for property, plant and equipment in 2018. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 11. The transitional provision expires on 30 June 2019.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of two years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2018 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 11.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

Accounting Policies

1.7 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	2 - 5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

Accounting Policies

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Accounting Policies

1.8 Heritage assets (continued)

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset’s carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset’s carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

1.9 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Accounting Policies

1.9 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other receivables from exchange transaction	Financial asset measured at amortised cost
Other receivables from non-exchange transactions	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
Bank and cash	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Accounting Policies

1.9 Financial instruments (continued)

Initial measurement

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.9 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.9 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Accounting Policies

1.10 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

1.12 Impairment of cash-generating assets (continued)

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification of a potential impairment

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Recognition and measurement (cash-generating units)

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

[Specify judgements made]

Identification of a potential impairment

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Recognition and measurement of non-cash generating units

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

Accounting Policies

1.14 Employee benefits (continued)

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Accounting Policies

1.14 Employee benefits (continued)

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.14 Employee benefits (continued)

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.15 Provisions

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

Accounting Policies

1.15 Provisions (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.15 Provisions (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.17 Revenue from non-exchange transactions (continued)

Rates, including collection charges, penalties and interest

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Public Contributions

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Government Grants

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

Other grants and donations

A concessionary loan is a loan granted to or received by a property, plant and equipment on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.23 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy.

Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Revenue from recovery of Unauthorised,Irregular,Fruitless and wasteful expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery from the responsible Councilors or officials is virtually certain. Such revenue is based on legislated procedures.

1.25 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.27 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Accounting Policies

1.27 Related parties (continued)

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its annual financial statements.

1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.29 Change in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimate and errors, requirements except to the extent that it is impracticable to determine the period-specific effects or the accumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective restatement is practicable. Details of the changes in accounting policy are disclosed in the notes to the financial statements where applicable.

Changes in accounting estimate are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in the note 45 to the financial statements where applicable.

1.30 Commitments

Items are classified as a commitment when the Municipality has committed itself to future transactions that will normally result in an outflow of resources embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not already been recognised anywhere else in the financial statements.

At the end of each financial period the Municipality determines commitments is respect of capital expenditure that has been approved and contracted for which is then disclosed in the commitments note 37 to the financial statements.

1.31 Contingent Assets and Liabilities

The municipality does not recognise contingent liabilities or contingent assets, but discloses them.

Accounting Policies

1.30 Commitments (continued)

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow of economic benefits is probable. Contingent assets and contingent liabilities are disclosed in note 38.

1.32 Value added Tax (VAT)

Output VAT is levied on taxable supplies in terms of the Value Added Tax Act.

Input VAT is claimed on those supplies allowed in terms of the Value Added Tax Act.

Where input VAT exceeds output VAT the Municipality recognises a receivable for VAT. Where output VAT exceeds input VAT the Municipality would a recognise a payable for VAT.

The Municipality accounts for VAT on a payments basis.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2099	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2099	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2099	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2099	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2099	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2099	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	01 April 2018	Unlikely there will be a material impact
• GRAP 16 (as amended 2016): Investment Property	01 April 2018	Unlikely there will be a material impact
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	01 April 2018	Unlikely there will be a material impact
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	Unlikely there will be a material impact
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Unlikely there will be a material impact

Notes to the Annual Financial Statements

	2018	2017

3. Inventories

Electricity	1 314 392	1 303 074
Rates and general	53 621	65 273
	1 368 013	**1 368 347**

3.1 Non - Financial information

Electricity inventories recognised as an expense during the year	133 990	218 947
Rates and general inventories recognised as an expense during the year	265 464	259 919

Included in the inventory balances above are the following types of inventory:

Electricity
Electrical sockets, transformers, plugs, meter boxes and other smaller items.

Rates and general
Cleaning materials, staff refreshments (coffee, tea, milk, etc.), stationery, fuel and other smaller items.

Inventory pledged as security

None of the inventory was pledged as security during the period.

4. Consumer debtors

Other Debtors	39 013	3 023 810
Consumer Debtors - Electricity	7 932 117	6 137 508
Consumer debtors - Refuse	16 998 858	14 517 399
Consumer Debtors - Sundry debtors	4 993 755	1 932 559
Consumer debtors - Impairment of exchange debtors	(21 908 452)	(13 717 297)
	8 055 291	**11 893 979**

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R 4 361 884 (2017: R6 174 386) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	1 668 382	3 359 106
2 months past due	1 406 992	1 577 790
3 months past due	1 286 510	1 237 490

Consumer debtors impaired

As of 30 June 2018, consumer debtors of R 30 106 057 (2017: R 23 099 748) were impaired and provided for.

The amount of the provision was R 21 991 323 as of 30 June 2018 (2017: R 13 717 297).

Notes to the Annual Financial Statements

	2018	2017

4. Consumer debtors (continued)

Reconciliation of allowance for impairment of consumer debtors

Opening balance	13 717 297	10 655 128
Provision for impairment	8 191 155	3 212 083
Amounts written off as uncollectible	-	(149 914)
	21 908 452	**13 717 297**

5. Receivables from non-exchange transactions

Fines	-	798 830
Fines - Impairment non-exchange debtors	-	(798 830)
Consumer debtors - Rates	27 559 145	17 965 780
Consumer debtors - Impairment non-exchange debtors	(16 339 411)	(14 178 156)
	11 219 734	**3 787 624**

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R 2 858 090 (2017: R2 869 545) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	1 026 139	1 205 096
2 months past due	944 827	894 908
3 months past due	887 124	769 542

Receivables from non-exchange transactions impaired

As of 30 June 2018, other receivables from non-exchange transactions of R 28 059 715 (2017: R18 033 019) were impaired and provided for.

The amount of the provision was R 16 248 993 as of 30 June 2018 (2017: R14 178 156).

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	14 178 156	11 751 684
Provision for impairment	2 161 255	4 585 756
Amounts written off as uncollectible	-	(2 159 284)
	16 339 411	**14 178 156**

6. VAT receivable

VAT	-	3 968 304

Notes to the Annual Financial Statements

	2018	2017

7. Long-term receivables

Cost of HT Lines	356 090	356 090
Less: Short term portion of HT Lines	-	(138 722)
	356 090	217 368

The cost of HT Lines comprise trade debtors and interest is charged at 6% per annum.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6 373	6 516
Bank balances	1 206 362	63 587 827
Investments	5 709 366	8 455 268
	6 922 101	**72 049 611**

Special terms and conditions - investments

Funds invested relate to call and fixed deposit accounts which earn a return of between 5% and 7%. Investments in fixed deposit do not exceed a term of three months and are either reinvested or utilised at the end of the three month term.

Funds are invested according to National Treasury municipal investment regulations dated 1st August 2005 on Gazette no. 27341 which set out a framework within all municipalities shall conduct their cash management and investments.

Cash and cash equivalents guarantees

The Municipality has a contingent facility of R8,435,800 (2017: R8,435,800) relating to bank and cash balances as follows:

Guarantee for Department of Minerals and Energy	73 700	73 700
New Eskom Guarantee		
Guarantee for Eskom	8 362 100	8 362 100

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
First National Bank Cheque Account (Primary bank account): 53813535227	480 180	59 468 150	93 399 789	480 180	59 444 424	93 400 443
First National Bank Current Account: 62116156987	726 145	2 578 099	3 445 456	726 145	2 578 099	3 445 456
First National Bank Current Account: 62135193770	37	1 565 304	66 043	37	1 565 304	66 043
First National Bank Account: 62063171351	249 588	241 561	232 567	249 588	241 561	232 567
First National Bank Account: 61381739619	112 372	616 214	1 074 799	112 372	616 214	1 074 799
First National Bank Account: 74568809858	5 102 900	7 597 493	7 600 000	5 102 900	7 597 493	7 600 000
Investec Bank Account: 454	-	-	-	244 506	-	-
Total	**6 671 222**	**72 066 821**	**105 818 654**	**6 915 728**	**72 043 095**	**105 819 308**

9. Biological assets that form part of an agricultural activity

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Trees in a plantation forest	3 620 874	-	3 620 874	1 358 970	-	1 358 970

Reconciliation of biological assets that form part of an agricultural activity - 2018

	Opening balance	Revaluation surplus	Total
Trees in a plantation forest	1 358 970	2 261 904	3 620 874

Reconciliation of biological assets that form part of an agricultural activity - 2017

	Opening balance	Decrease due to harvest	Revaluation surplus	Total
Trees in a plantation forest	4 931 102	(4 114 799)	542 667	1 358 970

Non-financial information

	2018	2017
Quantities of each biological asset		
Trees in a plantation forest	42 044	42 044

The trees in the plantation have been estimated based on a volume per hectare, which the plantations are a total of 116.1 ha.

Mature biological assets

	2018	2017
Trees in a plantation forest	42 044	42 044

The trees in Plots 4-9 on 78.3 ha were harvested during the 2018 financial year.

The trees in Plots 4-9 on 78.3 ha were harvested during the 2017 financial year.

Immature biological assets

	2018	2017
Trees in a plantation forest	3 204	3 204

The trees in Plot 1-3,10 have not reached their harvest age of an average age of 1-15 years.

(2017: The trees in Plot 1-3,10 have not reached their harvest age of an average age of 1-15 years.)

Pledged as security

None of the biological assets are pledged as security.

Revaluation

The biological assets were revalued by Mr. Martin Engelbrecht, an independent Forest Economist as at 30 June 2018. The Faustmann valuation technique was applied for the valuation of the biological assets.

Notes to the Annual Financial Statements

Figures in Rand

10. Investment property

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	61 113 333	(7 906 752)	53 206 581	61 113 333	(6 112 251)	55 001 082

Reconciliation of investment property - 2018

	Opening balance	Depreciation	Total
Investment property	55 001 082	(1 794 501)	53 206 581

Reconciliation of investment property - 2017

	Opening balance	Impairments	Depreciation	Total
Investment property	56 815 964	(16 098)	(1 798 784)	55 001 082

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. The municipality has developed a comprehensive asset register encompassing movable assets, land, buildings and infrastructure assets.

The investment property includes land registered under the name of the municipality and Mlungisi Mall.

The Mlungisi Mall components are the only assets within the the investment properties which are depreciated.

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	6 933 932	-	6 933 932	6 933 932	-	6 933 932
Buildings	63 900 757	(23 870 168)	40 030 589	63 823 644	(21 317 333)	42 506 311
Machinery and equipment	6 236 710	(3 588 272)	2 648 438	6 253 081	(2 889 903)	3 363 178
Furniture and office equipment	3 080 958	(2 371 711)	709 247	3 174 762	(2 025 491)	1 149 271
Transport assets	37 926 374	(18 175 491)	19 750 883	40 338 891	(15 268 329)	25 070 562
Computer equipment	3 644 415	(2 576 856)	1 067 559	3 354 454	(2 013 909)	1 340 545
Roads	344 803 511	(101 161 519)	243 641 992	333 271 641	(84 654 119)	248 617 522
Electricity	44 605 908	(11 174 014)	33 431 894	44 605 908	(9 935 579)	34 670 329
Capital Work in Progress	36 721 407	(316 391)	36 405 016	24 521 493	-	24 521 493
Office Equipment - Leased Asset	627 788	(365 120)	262 668	627 788	(240 223)	387 565
Cemeteries	1 256 961	(734 109)	522 852	1 256 961	(689 854)	567 107
Airports	1 127 000	(757 079)	369 921	1 127 000	(715 869)	411 131
Landfill sites	8 033 388	(2 456 058)	5 577 330	4 629 869	(2 178 141)	2 451 728
Total	**558 899 109**	**(167 546 788)**	**391 352 321**	**533 919 424**	**(141 928 750)**	**391 990 674**

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	6 933 932	-	-	-	-	-	6 933 932
Buildings	42 506 311	74 113	-	3 000	(2 552 835)	-	40 030 589
Machinery and equipment	3 363 178	34 168	(21 979)	-	(726 929)	-	2 648 438
Furniture and office equipment	1 149 271	10 053	(13 523)	-	(436 554)	-	709 247
Transport assets	25 070 562	-	(1 629 224)	-	(3 690 455)	-	19 750 883
Computer equipment	1 340 545	359 323	(22 105)	-	(610 204)	-	1 067 559
Roads	248 617 522	6 430 393	(652 176)	6 812 732	(17 566 479)	-	243 641 992
Electricity	34 670 329	-	-	-	(1 238 435)	-	33 431 894
Work in progress	24 521 493	19 015 646	-	(6 815 732)	-	(316 391)	36 405 016
Office Equipment - Leased Asset	387 565	-	-	-	(124 897)	-	262 668
Cemeteries	567 107	-	-	-	(44 255)	-	522 852
Airports	411 131	-	-	-	(41 210)	-	369 921
Landfill sites	2 451 728	3 403 519	-	-	(277 917)	-	5 577 330
	391 990 674	**29 327 215**	**(2 339 007)**	**-**	**(27 310 170)**	**(316 391)**	**391 352 321**

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Impairment loss	Total
Land	6 933 932	-	-	-	-	-	-	6 933 932
Buildings	46 879 240	-	-	1 903 997	(3 502 490)	(2 601 086)	(173 350)	42 506 311
Plant - Leased Asset	40 240 424	-	(39 712 879)	-	-	(527 545)	-	-
Machinery and equipment	3 998 956	69 089	-	-	-	(704 867)	-	3 363 178
Furniture and office equipment	1 442 361	60 115	-	-	-	(353 205)	-	1 149 271
Transport assets	22 561 368	6 079 416	(169 170)	-	-	(3 401 052)	-	25 070 562
Computer Equipment	1 721 366	154 671	-	-	-	(535 492)	-	1 340 545
Roads	269 478 707	-	(3 453 287)	10 536 896	(9 959 370)	(17 213 350)	(772 074)	248 617 522
Electricity	33 791 885	-	-	2 432 270	(28 840)	(1 181 756)	(343 230)	34 670 329
Work in progress	10 981 833	28 412 823	-	(14 873 163)	-	-	-	24 521 493
Office Equipment - Leased Asset	485 676	30 037	-	-	-	(128 148)	-	387 565
Cemeteries	606 551	-	-	-	-	(39 444)	-	567 107
Airports	447 759	-	-	-	-	(36 628)	-	411 131
Landfill sites	2 688 385	-	-	-	-	(236 657)	-	2 451 728
	442 258 443	**34 806 151**	**(43 335 336)**	**-**	**(13 490 700)**	**(26 959 230)**	**(1 288 654)**	**391 990 674**

Notes to the Annual Financial Statements

	2018	2017

11. Property, plant and equipment (continued)

Pledged as security

Carrying value of assets pledged as security:

Office Equipment - Leased Assets	201 769	298 278

Assets subject to finance lease (Net carrying amount)

Office Equipment - Leased Assets	262 668	387 565

Other information

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Property, plant and Equipment	Total
Opening balance	13 998 185	5 397 981	5 125 327	24 521 493
Additions/capital expenditure	13 705 399	-	5 310 247	19 015 646
Impairment	-	-	(316 391)	(316 391)
Transferred to completed items	(6 812 732)	-	(3 000)	(6 815 732)
	20 890 852	**5 397 981**	**10 116 183**	**36 405 016**

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	5 229 305	5 397 981	354 547	10 981 833
Additions/capital expenditure	21 209 775	2 432 268	4 770 780	28 412 823
Transferred to completed items	(12 440 895)	(2 432 268)	-	(14 873 163)
	13 998 185	**5 397 981**	**5 125 327**	**24 521 493**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

	2018	2017

12. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 159 163	(1 021 372)	1 137 791	2 159 163	(589 554)	1 569 609

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	1 569 609	(431 818)	1 137 791

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	780 017	1 069 111	(279 519)	1 569 609

Pledged as security

None of the intangible assets pledged as security:

13. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	610 183	-	610 183	610 183	-	610 183

Reconciliation of heritage assets 2018

	Opening balance	Total
Historical monuments	610 183	610 183

Reconciliation of heritage assets 2017

	Opening balance	Total
Historical monuments	610 183	610 183

Pledged as security

Non of the heritage assets are pledged as security.

Notes to the Annual Financial Statements

	2018	2017

14. Finance lease obligation

	2018	2017
Minimum lease payments due		
- within one year	153 919	239 459
- in second to fifth year inclusive	7 786	62 876
	161 705	302 335
less: future finance charges	(7 124)	(30 269)
Present value of minimum lease payments	**154 581**	**272 066**
Present value of minimum lease payments due		
- within one year	146 815	211 882
- in second to fifth year inclusive	7 766	60 184
	154 581	**272 066**

The finance lease obligation is made up of numerous rental agreements for the office equipment.

Office Equipment Leases

The discount rate used in calculating the present value of the minimum lease payments is the implicit interest rate in the lease, if this is practicable to determine; if not, it is the prime interest rate. Due to the nature of the information provided the implicit rate for copiers could not be determined, as the cost of the copiers is not provided in the agreement. Any initial direct costs of leases are added to the amount recognised as an asset. Only the terms and payment amount are provided. The office equipment finance lease has an implicit interest rate ranging between 7.50% - 19% per annum, by taking into account the market values of the office equipment at initial recognition.

15. Payables from exchange transactions

	2018	2017
Trade and other payables	23 669 767	22 698 372
Consumer debtors with credit balances	2 364 346	1 818 877
Deposits received	-	86 835
Other payables	259 476	1 060 473
Retention creditors	161 380	-
Agency fees payable	424 103	-
	26 879 072	**25 664 557**

Consumer receivables with net credit balances have been classified to Payables from exchange transactions.

16. Consumer deposits

	2018	2017
Electricity	1 846 920	1 765 529

Consumer deposits are made of deposists from consumers from electricity connections, for those making use of conventional electricity.

Notes to the Annual Financial Statements

	2018	2017

17. Employee benefit obligations

Defined benefit plan

The defined benefit plan consists of post retirement medical aid benefit and long service bonus.

Post retirement medical aid plan

The Municipality operates six accredited medical aid schemes, namely:
Bestmed
Bonitas
Discovery La Health
Hosmed
Keyhealth
Samwu

Pensioners continue on the option they belonged to on the day of retirement.

The independent valuers, Arch Actuaries carried out a statutory valuation on 30 June 2018 (30 June 2017 PriceWaterhouseCoopers Actuarial Services).

	2018	2017
Carrying value		
Present value of the defined benefit obligation	32 424 718	30 152 718
Service costs	1 937 000	2 048 000
Interest costs	3 291 000	2 993 000
Net actuarial gains	(7 399 345)	(2 046 000)
Benefits paid	(878 392)	(723 000)
	29 374 981	**32 424 718**

	2018	2017
Non-current liabilities	28 464 435	31 648 718
Current liabilities	910 546	776 000
	29 374 981	**32 424 718**

Key assumptions used

Assumptions used at the reporting date:

	2018	2017
Discount rates used	9.62 %	9.70 %
Net discount rates used	2.08 %	1.02 %
Medical cost trend rates	7.39 %	8.86 %

Other assumptions

	2018	2017
Pre retirement age	SA 85-90 L	SA 85 - 90 L
Post retirement age	PA (90) -1	PA (90) -1
Normal retirement age	63 years	63 years
Spouse age differences (male older than female)	3 years	3 years
AIDS	No assumptions made	No assumptions made

Membership data

	2018	2017
Female members	71	77

Notes to the Annual Financial Statements

	2018	2017

17. Employee benefit obligations (continued)

Male members	73	77

Healthcare cost inflation sensitivity (R'000)	1% decrease	Base (8.86%)	1% increase
Defined benefit obligation	(27 640)	(32 425)	(38 470)
Service cost (next financial year)	(1 527)	(1 937)	(2 489)
INterest cost (next financial year)	(2 793)	(3 291)	(3 921)

Long Services Awards

The Long service bonus for the portion of the next interval already rendered by the employee. The employee receives a leave pay and percentage of salary amount for reaching certain interval (5 years, 10 years, 15 years etc.). This provision is accrued in terms of the collective bargain agreement. The Long service bonus plans are defined benefit plans. As at period ended 30 June 2018, 321 (2017: 327) employeed were eligible for Long service bonus.

Carrying value		
Present value of the defined benefit obligation	5 774 000	4 443 000
Service costs	855 000	713 000
Interest costs	495 000	404 000
Net actuarial gains	(564 469)	526 000
Benefits paid	(951 000)	(312 000)
	5 608 531	**5 774 000**

Non-current liabilities	4 923 841	4 823 000
Current liabilities	684 690	951 000
	5 608 531	**5 774 000**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.46 %	8.50 %
Net discount rates used	2.23 %	1.12 %
Salary inflation	6.09 %	7.30 %

Other assumptions

Normal retirement age	63 years	63 years
Number of trading days per year	252	252

Membership data

Female members	110	106
Male members	211	221

Short term employee benefits obligations

Provision for bonuses:

A bonus provision is raised for the amount which the Municipality is obligated to pay employees.

Notes to the Annual Financial Statements

	2018	2017

17. Employee benefit obligations (continued)

Accrual for leave gratuity:

Leave gratuity is raised for the amount which the Municipality is obligated to pay employees in lieu of annual leave, if they are to leave the Municipality.

	2018	2017
Provision for Bonuses		
Opening balance	4 109 138	3 115 878
Performance bonus	183 832	1 141 536
Service bonus	3 484 275	2 967 602
Utilised during the year	(4 109 138)	(3 115 878)
	3 668 107	**4 109 138**

	2018	2017
Accrual for leave gratuity:		
Opening balance	6 990 304	5 335 651
Leave grauity - Obligation	6 207 870	6 990 304
Utilised during the year	(6 114 860)	(5 335 651)
	7 083 314	**6 990 304**

The amounts recognised in the statement of financial position are as follows:

	2018	2017
Carrying value		
Non-current portion of Post Retirement Benefits	(28 464 835)	(31 648 718)
Non-current portion of Long Service Awards	(4 923 841)	(4 823 000)
Current portion of Post Retirement Benefits	(910 546)	(776 000)
Current portion of Long Service Awards	(684 690)	(951 000)
Provision for bonus	(3 668 107)	(4 109 138)
Accrual for leave gratuity	(7 083 314)	(6 990 304)
	(45 735 333)	**(49 298 160)**

	2018	2017
Non-current liabilities	(33 388 676)	(36 471 718)
Current liabilities	(12 346 657)	(12 826 442)
	(45 735 333)	**(49 298 160)**

Net expense recognised in the statement of financial performance

	2018	2017
Current service cost	2 792 000	2 761 000
Interest cost	3 786 000	3 397 000
Actuarial (gains) losses	(7 963 814)	(1 520 000)
Settlement	-	993 260
Assets not recognised	-	1 654 653
	(1 385 814)	**7 285 913**

Notes to the Annual Financial Statements

	2018	2017

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
INEG	623 323	307 089
WCG	233 712	473 420
Waste Grant	-	770 747
Recycling centre	122 310	122 310
	979 345	**1 673 566**

Movement during the year

Balance at the beginning of the year	1 673 566	5 165 730
Surrendered to NRF/Roll over not approved	(229 000)	(3 625 000)
Grants received during the year	133 346 076	146 754 488
Income recognition during the year	(133 811 297)	(146 621 652)
	979 345	**1 673 566**

See note 24 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Annual Financial Statements

	2018	2017

19. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Reversed during the year	Total
Provision for landfill sites	404 176	3 403 519	-	3 807 695
WCA	830 021	-	(830 021)	-
	1 234 197	**3 403 519**	**(830 021)**	**3 807 695**

Reconciliation of provisions - 2017

	Opening Balance	Additions	Overprovision in the previous year	Penalties	Transfer to accrual	Total
Provision for landfill sites	393 480	10 696	-	-	-	404 176
WCA	4 517 580	830 021	(1 238 850)	411 717	(3 690 447)	830 021
	4 911 060	**840 717**	**(1 238 850)**	**411 717**	**(3 690 447)**	**1 234 197**

	2018	2017
Non-current liabilities	404 176	404 176
Current liabilities	3 403 519	830 021
	3 807 695	**1 234 197**

Provision for Landfill Site rehabilitation

The municipality has an obligation to restore two landfill sites situated in Stutterheim, Erf 80 and Cathcart, Erf 474. The sites are currently licenced and used for general waste disposal (non-hazardous) purposes.

WCA

The municipality has an obligation to pay for the Workers Compensation Assurance (WCA), as a result a provision is raised based on the estimated amount to be paid, prior to the formal assessment by the Labour Department.

20. VAT payable

	2018	2017
VAT payable	1 499 851	-

21. Service charges

	2018	2017
Sale of electricity	26 985 683	28 866 926
Refuse removal	9 724 663	9 133 006
Other service charges	104 616	5 784
	36 814 962	**38 005 716**

22. Interest received - investment

Interest revenue

	2018	2017
Bank	4 303 880	8 441 923

Interest is earned on municipal investments and municipal cheque account in note 8.

Notes to the Annual Financial Statements

	2018	2017

23. Property rates

Rates received

Property rates	21 172 265	16 630 011
Less: Rebates	(4 278 797)	(2 616 713)
	16 893 468	**14 013 298**

Valuations

Residential	1 361 185 877	1 361 185 877
Commercial	187 860 986	187 860 986
State	246 981 500	246 981 500
Municipal	29 704 332	29 704 332
Small holdings and farms	1 077 198 612	1 077 198 612
Public benefit organisations	73 402 300	73 402 300
Vacant land	1 973 000	1 973 000
	2 978 306 607	**2 978 306 607**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of - (2017: 0.0098) is applied to property valuations to determine assessment rates. Rebates of R (2017: R2,616,713) are granted to residential and state property owners.

Rates are levied on an monthly basis. Interest at prime plus 1% per annum is levied on rates outstanding monthly.

	2018	2017

24. Government grants and subsidies

Operating grants		
Equitable share	95 446 000	113 780 000
Capacity of Municipality	37 077	-
Library grant	1 200 000	1 200 000
Municipal Infrastructure Grant (MIG)	28 574 000	23 147 466
Expanded Public Works Programme (EPWP)	1 389 000	1 062 000
Financial Managment Grant (FMG)	1 700 000	1 625 000
Staff Training	-	170 487
Waste collection grant	-	647 208
Waste site grant	-	296 580
INEG Grant	4 454 766	4 692 911
Government grant (operating) 18	1 010 455	-
	133 811 298	**146 621 652**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Operating and maintenance cost of the municipalities that have the least potential to cover these costs from their own revenue.

INEG

Balance unspent at beginning of year	307 089	-
Current-year receipts	5 000 000	5 000 000
Conditions met - transferred to revenue	(4 454 766)	(4 692 911)
Surrendered to NRF/Roll over not approved	(229 000)	-
	623 323	**307 089**

Conditions still to be met - remain liabilities (see note 18).

The grant was obtained from the Department of Energy. The purpose of this grant is to address the electrification backlog of occupied residential dwellings.

Waste site grant

Balance unspent at beginning of year	473 420	-
Current-year receipts	-	770 000
Conditions met - transferred to revenue	(239 708)	(296 580)
	233 712	**473 420**

Conditions still to be met - remain liabilities (see note 18).

To improve waste site and ensure clean enviroment.

Waste Collection Grant

Balance unspent at beginning of year	770 747	1 417 954
Conditions met - transferred to revenue	(770 747)	(647 207)
	-	**770 747**

Conditions still to be met - remain liabilities (see note 18).

To promote safe environment and to reduce unemployment.

	2018	2017

24. Government grants and subsidies (continued)

Recycling centre

	2018	2017
Balance unspent at beginning of year	122 310	122 310

Conditions still to be met - remain liabilities (see note 18).

The grant is made to assist the municipality in promotion of clean environment.

Municipal Infrastructure Grant (MIG)

	2018	2017
Balance unspent at beginning of year	-	3 625 466
Surrendered to NRF/Roll over not approved	-	(3 625 000)
Current year receipts	28 574 000	23 147 000
Conditions met - transferred to revenue	(28 574 000)	(23 147 466)
	-	-

Conditions still to be met - remain liabilities (see note 18).

The Grant was received from the Department of Cooperative Governance and Traditional Affairs. The purpose of the grant is to provide specific finance for basic Municipal Infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

Staff training

	2018	2017
Current-year receipts	37 077	170 487
Conditions met - transferred to revenue	(37 077)	(170 487)
	-	-

Conditions still to be met - remain liabilities (see note 18).

The grant was obtained from the Sectoral Education Training Authority (SETA) for training of staff. In terms of the Skills Development Act regarding monies by SETA's publishedd in Government Notice 990 in Government Gazette No. 34940, LG SETA si required to disburse in quarterly intervals.

Extended Public Works Programme (EPWP)

	2018	2017
Current-year receipts	1 389 000	1 062 000
Conditions met - transferred to revenue	(1 389 000)	(1 062 000)
	-	-

Conditions still to be met - remain liabilities (see note 18).

The grant is provided to expand the Public Works programme and job creation efforts. The municipality is incentivised to use labour intensive delivery methods in the following areas:
- Road maintenance and the maintenance of buildings;
- Parks beautification;
- Waste management;
- Low traffic volume roads and rural roads.

Notes to the Annual Financial Statements

	2018	2017

24. Government grants and subsidies (continued)

Financial Managment Grant (FMG)

Current-year receipts	1 700 000	1 625 000
Conditions met - transferred to revenue	(1 700 000)	(1 625 000)
	-	-

Conditions still to be met - remain liabilities (see note 18).

The grant is received to ensure sound and sustainable management of the fiscal and financial affairs of the municipality. To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

Library Grant

Current-year receipts	1 200 000	1 200 000
Conditions met - transferred to revenue	(1 200 000)	(1 200 000)
	-	-

Conditions still to be met - remain liabilities (see note 18).

To transform urban and rural community library infrastructure, facilities and services thorugh a recapitalised programme.

Notes to the Annual Financial Statements

	2018	2017

25. Employee related costs

	2018	2017
Basic	87 178 582	75 258 570
Bonus	4 280 228	5 353 045
Medical aid - company contributions	5 291 300	3 674 493
UIF	580 153	569 543
Employee benefit movements	(3 164 203)	4 638 000
Travel, motor car, accommodation, subsistence and other allowances	1 113 827	1 384 671
Overtime payments	2 073 801	2 865 096
Acting allowances	750 738	389 568
Travel allowances	5 857 550	5 012 161
Housing benefits and allowances	3 242 208	3 248 782
Performance Bonus	-	980 280
Industrial Council Levy	32 866	31 112
Pension Fund Contributions by Council	13 522 870	12 011 405
Less: Employee costs capitalised to PPE	-	(3 281 711)
	120 759 920	**112 135 015**

Remuneration of Municipal Manager

	2018	2017
Annual Remuneration	584 150	953 028
Travelling Allowance	241 893	254 716
Contributions to UIF	1 338	1 785
Cellphone Allowance	18 000	24 000
Other Allowance	143 185	107 099
	988 566	**1 340 628**

Remuneration of Chief Financial Officer

	2018	2017
Annual Remuneration	522 590	535 017
Travelling Alliwance	80 000	250 625
Contributions to UIF, Medical and Pension Funds	17 257	40 197
Cellphone Allowance	11 200	14 000
Other Allowance	8 590	142 436
Backpay	31 700	-
	671 337	**982 275**

Remuneration of Corporate Services Manager

	2018	2017
Annual Remuneration	660 023	952 374
Contributions to UIF, Medical and Pension Funds	17 762	209 555
Cellphone Allowance	1 400	16 800
Other	167 860	-
	847 045	**1 178 729**

Notes to the Annual Financial Statements

	2018	2017

25. Employee related costs (continued)

Remuneration of Development and Planning Manager

Annual Remuneration	795 173	835 590
Travelling Allowance	121 221	127 696
Performance Bonuses	104 574	-
Contributions to UIF, Medical and Pension Funds	187 348	198 643
Other Allowance	28 420	16 800
Backpay	14 524	-
Leave	258 645	-
	1 509 905	**1 178 729**

Remuneration of Strategic Manager

Annual Remuneration	783 208	653 049
Travelling Allowance	242 028	233 280
Performance Bonuses	131 369	-
Contributions to UIF, Medical and Pension Funds	165 525	157 320
Cellphone Allowance	16 800	16 800
Other Allowance	18 103	51 092
	1 357 033	**1 111 541**

Remuneration of the Community Services Manager

Annual Remuneration	848 449	689 905
Travelling Allowance	217 697	264 060
Contributions to UIF, Medical and Pension Funds	131 612	156 575
Cellphone Allowance	14 000	16 800
Other Allowance	10 242	51 390
	1 222 000	**1 178 730**

26. Remuneration of councillors

Honourable Mayor	825 406	758 012
Speaker	667 160	606 410
Councillors' Salaries	7 424 791	7 226 347
Contributions to Medical, Pension Funds and UIF	-	2 712 492
Councillors' allowances	3 325 470	864 438
	12 242 827	**12 167 699**

The salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution.

The Mayor and the Speaker each have the use of separate Council owned vehicles for official duties.

27. Vendor management fee

Management fees - third party	661 490	545 185

The municipality pays vendor management fees to Conlog, this service provider owns the sustem used to manage the sales of prepaid electricity to external outlets and the municipal loffice cashiers.

Notes to the Annual Financial Statements

	2018	2017

28. Depreciation and amortisation

Property, plant and equipment	24 756 561	27 113 230
Investment property	4 347 338	1 529 641
Intangible assets	431 818	394 661
	29 535 717	**29 037 532**

29. Finance costs

Finance leases	100 248	2 506 888

30. Debt impairment

Debt impairment	10 352 410	7 916 439

31. Bulk purchases

Electricity	27 072 041	26 164 717

32. Contracted services

Information Technology Services	1 243 018	-
Fleet Services	3 098 948	-
Operating Leases	3 156 447	-
	7 498 413	**-**

Notes to the Annual Financial Statements

	2018	2017

33. General expenses

	2018	2017
Advertising	776 549	381 890
Audit Committee Fees	-	505 327
Audit Fees	3 261 160	3 055 611
Bank charges	20 127	379 428
Cleaning	33 199	-
Community Development and training	-	1 665 456
Computer expenses	449 406	375 888
Consulting and professional fees	5 917 189	4 982 748
Consumables	204 611	315 934
Electricity	3 744 024	4 524 011
Electricity consumption (Street Lights)	1 020 779	1 024 595
Entertainment	455 128	627 234
Free basic electricity	8 838 804	8 298 716
Fuel and oil	6 493 357	4 535 040
Hire	36 892	-
IDP process plan	384 680	610 815
IT expenses	82 515	166 794
Insurance	27 177	2 203 214
Motor vehicle expenses	-	300 294
Other expenses	6 294 590	3 835 914
Plant hire	78 624	119 949
Postage and courier	-	215 780
Printing and stationery	3 034 555	1 254 875
Project maintenance costs	1 456 758	2 273 312
Promotions of LED	599 018	1 220 056
Refuse	-	70 700
Repairs and maintenance	2 992 834	6 877 362
Security (Guarding of municipal property)	113 647	2 206 896
Skills development levy	989 944	909 497
Staff welfare	222 942	337 170
Subscriptions and membership fees	145 568	1 055 876
Telephone and fax	2 204 177	1 433 708
Training	5 517 007	4 084 293
Travel - local	468 699	-
Uniforms	-	246 678
Vehicle license fees	201 278	453 345
	56 065 238	**60 548 406**

34. Auditors' remuneration

Auditors Remuneration	3 261 160	3 055 611

Notes to the Annual Financial Statements

	2018	2017

35. Cash flows from operating activities

	2018	2017
Deficit for the year	(67 117 233)	(86 216 506)
Adjustments for:		
Depreciation and amortisation	29 535 717	29 037 532
Loss on sale of property, plant and equipment	2 338 580	45 941 511
Loss on disposal of biological assets and agricultural produce	-	1 186 561
Gain on fair value of biological assets	(2 261 904)	(542 667)
Finance costs	100 248	-
Impairment loss on non-current assets	316 391	1 304 752
Debt impairment	10 352 410	7 916 439
Movements in retirement benefit assets and liabilities	(3 562 827)	6 250 913
Movements in provisions	2 573 498	(3 676 863)
Changes in working capital:		
Inventories	334	(344 920)
Consumer debtors and other debtors	(6 513 722)	(4 405 533)
Other receivables from non-exchange transactions	(7 432 110)	(5 766 194)
Payables from exchange transactions	1 215 710	15 057 965
VAT	5 468 155	(854 105)
Unspent conditional grants and receipts	(694 221)	(3 492 164)
Consumer deposits	81 391	1 336 709
	(35 599 583)	**2 733 430**

36. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At amortised cost	Total
Consumer debtors and other debtors	8 055 291	8 055 291
Other receivables from non-exchange transactions	11 219 734	11 219 734
Cash and cash equivalents	6 922 101	6 922 101
Long term receivables	346 221	346 221
	26 543 347	**26 543 347**

Financial liabilities

	At amortised cost	Total
Finance lease obligations	161 732	161 732
Payables from exchange transactions	26 879 072	26 879 072
Unspent conditional grants	979 345	979 345
Consumer deposits	1 846 920	1 846 920
	29 867 069	**29 867 069**

Notes to the Annual Financial Statements

	2018	2017

36. Financial instruments disclosure (continued)

2017

Financial assets

	At amortised cost	Total
Consumer debtors and other debtors	11 893 979	11 893 979
Other receivables from non-exchange transactions	3 787 624	3 787 624
Cash and cash equivalents	72 049 611	72 049 611
Short term portion of long term receivables	138 722	138 722
Long term receivables	356 090	356 090
	88 226 026	**88 226 026**

Financial liabilities

	At amortised cost	Total
Finance lease obligations	272 065	272 065
Payables from exchange transactions	25 664 557	25 664 557
Unspent conditional grants	1 673 566	1 673 566
Consumer deposits	1 765 529	1 765 529
	29 375 717	**29 375 717**

37. Commitments

Authorised capital expenditure

	2018	2017
Already contracted for but not provided for		
• Property, plant and equipment	10 856 339	6 540 627
• Intangible assets	-	180 176
	10 856 339	**6 720 803**

	2018	2017
Total capital commitments		
Already contracted for but not provided for	10 856 339	6 720 803

This committed expenditure relates to property, plant and equipment and intangible assets will be financed by a combination of MIG and funds internally generated.

	2018	2017

38. Contingencies

Contingent Liabilities

There is a claim of R 400 00 including legal costs (2017: R 474 131) by councillor Kenneth Sigidi and Cathcart Residents Association, case number A192 for damages. The case was dismissed with costs on 21 May 2018. We are in the process of drafting a bill of costs to be taxed.

There is a claim including legal costs R35 000 (2017: R 103,541) by Sydney Kenene, case number A201 for cattle that disappeared in the municipal pound that is managed by the SPCA.

There is a civil claim for damages/retrospective payment as from 2011, R455 000.

Contingent Assets

There is a civil claim against Kwane Capital and Mcebisi Mlonzi R92 487 183

39. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
Members of key management	I Sikhulu-Nqwena - Municipal Manager L Manjingolo - Chief Financial Officer S Vara - Community Services Manager (Contract expired 30 June 2018) M Quma - Corporate Services Manager (Contract expired 30 June 2018) B Ondala - Planning and Development Manager (Contract expired 30 June 2018)

Related party transactions

Copmanies owned by people/spouses/partners/associates in the services of the state	2018	2017
Cementile Products	-	52 222
ICT Choice	520 803	913 100
LM Velebesi Trading	2 650	20 000
Nelson Mandela Metropolitan University	14 338	43 230
Sabamdela Trading	31 300	21 600
Shido Logistix	-	32 780
TFM Manufacturing	27 707	34 496
TH Paul Kruger	194 883	99 992

40. Prior period errors

Property, plant and equipment

It was identified in the current year that certain Property, plant and equipment (Roads) were disposed off in the prior year due to the process of demarcation. This has resulted in the adjustment in Property, plant and equipemnt as indicated below.

Workmen's Compensation accrual

It was identified in the current year that the Workmens' Compensation accrual recognised in prior year was overstated. This has resulted in the adjustment to General expenses and Payables from exchange transactions as indicated below.

The correction of the error(s) results in adjustments as follows:

Notes to the Annual Financial Statements

	2018	2017

40. Prior period errors (continued)

Property, plant and Equipment

Property, plant and equipment - As previously reported		395 443 961
Roads Deregonised - cost		(4 122 710)
Roads Deregonised - accumulated depreciation		669 423
		391 990 674

Payables from exchange transactions

Payables from exchange transactions - As previously reported		25 722 341
WCA recognised		(57 784)
		25 664 557

Accumulated Surplus

Accumulated surplus - As previously reported 1 July 2018		(467 441 901)
Increase in loss on disposal-demarcations		3 453 287
Decrease in General expenses - WCA recognised		(57 784)
		(464 046 398)

General expenses

As previously reported		60 663 974
Decrease in General expenses - WCA recognised		(57 784)
		60 606 190

Loss on disposal of assets

As previously reported		42 488 224
Increase in loss on disposal-demarcations		3 453 287
		45 941 511

41. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Notes to the Annual Financial Statements

	2018	2017

41. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2018	2017
Consumer debtors and other debtors	7 933 463	11 893 979
Receivables from non-exchange transactions	11 201 344	3 787 624
Cash and cash equivalents	5 966 202	72 049 611
Long term receivables	217 368	217 368
Short term portion of long term receivables	-	138 722

Notes to the Annual Financial Statements

	2018	2017

41. Risk management (continued)

Market risk

Risk from biological assets

The municipality is exposed to financial risks arising from changes in wood prices. The municipality does not anticipate that wood prices will decline significantly in the foreseeable future. The municipality has not entered into derivative contracts to manage the risk of a decline in wod prices. The municipality reviews its outlook for wood prices regularly in considering the need for active financial risk management.

Interest rate risk

Liquidity risk

The municipality does not hedge foreign exchange fluctuations.

The municipality risk relates to funds available for future committments. The Municipality manages liquidity risk through ongoing review of future committments, projected grant receipts and cash forecasting. Cash flow forecasts are prepared and borrowing facilities are monitored.

The municipality is not exposed to currency as no transactions are negotiated in foreign.

42. Events after the reporting date

There were no signifcant events after year end.

43. Unauthorised expenditure

Opening balance	75 614 217	54 972 525
Unauthorised expenditure	13 266 122	20 641 692
	88 880 339	**75 614 217**

44. Fruitless and wasteful expenditure

Opening balance	6 320 991	5 639 866
Fruitless and wasteful expenditure	262 553	681 125
	6 583 544	**6 320 991**

Analysis of fruitless and wasteful expenditure

Interest paid	37 202	77 142
Penalties	225 350	603 983
	262 552	**681 125**

No disciplinary action has been taken yet with regards to the expenditure disclosed above.

Notes to the Annual Financial Statements

	2018	2017

45. Irregular expenditure

	2018	2017
Opening balance	40 900 704	18 344 971
Add: Irregular Expenditure - current year	17 044 264	15 403 938
Less: Amounts condoned	-	7 151 795
	57 944 968	**40 900 704**

Analysis of expenditure awaiting to be certifed as irrecoverable per age classification

	2018	2017
Current year	17 044 264	22 555 733
Prior years	40 900 704	18 344 971
	57 944 968	**40 900 704**

Details of irregular expenditure – current year

Irregular expenditure on payroll	Due processes were not before standirsation of salaries were paid	11 683 630
Irregular expenditure on contracts	SCM Processes not followed	46 261 338
Total Irregular Expenditure 2012		**57 944 968**

Details of irregular expenditure - prior year

Irregular expenditure on contracts	SCM Processes not followed	40 900 704

46. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA)

	2018	2017
Current year subscription / fee	1 146 463	1 168 680
Amount paid - current year	(1 146 463)	(1 168 680)
	-	-

Material electrical distribution losses

	2018	2017
Current year subscription / fee	5 095 285	3 456 961

The municipality lost 5,314,808 kwhr (2017: 5,300,506 kwhr) representing 18.6% (2017: 18.9%) of total bulk purchases of electricity from Eskom during year. The losses are attributable to normal losses and illegal connections.

Audit fees

	2018	2017
Current year subscription / fee	3 261 160	3 055 611
Amount paid - current year	(3 261 160)	(3 055 611)
	-	-

PAYE and UIF

	2018	2017
Current year subscription / fee	18 321 297	16 755 489
Amount paid - current year	(18 321 297)	(16 755 489)
	-	-

Notes to the Annual Financial Statements

	2018	2017

46. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

	2018	2017
Current year subscription / fee	29 816 354	18 025 436
Amount paid - current year	(29 816 354)	(18 025 436)
	-	-

VAT

	2018	2017
VAT receivable	-	3 968 304
VAT payable	1 499 851	-
	1 499 851	**3 968 304**

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2017	Outstanding less than 90 days	Outstanding more than 90 days	Total
Busika N	881	5 261	6 142
Monti N	872	581	1 453
Pickering RB	9 648	300	9 948
Ngxingxolo CT	730	881	1 611
	12 131	**7 023**	**19 154**

Notes to the Annual Financial Statements

	2018	2017

46. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations the accounting officer may dispense of the official procurement process requirements in certain circumstances (e.g emergency or single procurement) and the accounting officer may ratify minor breaches of the procurement process if the breach is purely of a technical nature. However all such departures need to be approved by the Municipal Manager and noted by Council.

Incident		
Actom Electrical	6 557	-
Agri Trac and Auto	-	23 019
Ahlangane Trading	-	16 000
Aloe Office and Business Equipment	-	6 964
Amatola Cleaning Supplies	2 589	-
Babcock Africa Services	1 212 468	893 048
Bell Equipment	206 525	29 518
Boardmans Hardware	34 534	3 331
Border Internet	-	7 368
Bose Tyres	15 395	40 478
Buffalo Toyota	28 085	28 990
CB Agencies	-	18 576
Carnation Deluxe Events (Pty) Ltd	-	71 200
Cathcart Farm Services	6 530	10 466
Cementile Products	-	52 223
Chapmar Industries	37 587	-
Conlog	-	85 332
Conlog Pty Ltd	154 285	-
Datnis Nissan	-	15 795
Datniss Nissam	6 269	-
Dymot Engineering Company	-	38 623
East London Truck & Bus	8 979	-
Ekim Sales CC	-	43 417
Farm Security Services	-	6 560
Forte Community Radio	6 000	-
Government Print	8 070	9 453
H S Enteprise	4 971	-
Hewu Funerals	-	10 000
Hlumelo Trading	-	9 786
JMJ Sales Pty Ltd	3 097	-
Jambase Security Services	83 900	-
KYA Security Services	194 221	-
Kavi Transport Services	-	2 800
Kemah JCB	150 903	45 743
Kempston Motors	-	63 266
Khapy General Trading CC	-	12 500
Khula Duna Trading	-	5 325
Koloni Energy Solutions	-	16 000
Komatsu Southern Africa	99 559	18 283
Lavender Leisure	8 900	-
Lexis Nexis	-	38 906
Lithotech	21 788	15 016
Lutheran Hall	2 500	-
MCR Hydralics CC	-	19 716
Mak & Mak Arts and Catering	25 000	-
Manderson Hotel	226 330	388 455
McGormick	8 648	9 293
Media Maestro	37 500	-
Meyers Motors	72 225	64 665

Notes to the Annual Financial Statements

46. Additional disclosure in terms of Municipal Finance Management Act (continued)

	2018	2017
Mindmuziek Media	-	7 999
Ndondo's taxi	-	10 800
New Dimension	-	12 137
Nkoliso Trading	-	20 000
North and Robertson	-	10 089
PayDay	3 097	92 187
Peake Performance	2 526	-
Peugair Border	18 992	68 896
Picasso Headline	-	42 476
Pick n Pay	109 204	42 978
Pirate Medical Supplies	-	9 982
Pollock's Copy Design Print CC	14 915	-
Qamis Trading	-	16 500
Queenstown Nissan	54 895	34 051
Red Alert	18 315	27 257
Redifine IT Solutions	43 858	-
Rencor	10 952	5 665
Resilient Servers and Network	-	46 204
Ronnies Motors	-	116 030
Slo Foot Jazz Band	-	25 000
Sondlo & Knopp	-	4 760
Southern Fried	2 570	-
Southern Friend	-	13 272
Square Deal Engineering	103 307	133 988
Stutt Delta Garage	365 712	796 201
Syco Manufacturing	6 984	14 149
TFM Manufacturer	27 707	21 660
TH Paul Kruger Construction	48 400	-
TKY Power Products	2 246	-
Tava Networks	-	3 534
Thando's Catering & Guest House	-	2 996
Tractor World	5 143	7 852
Trans Atlantic	4 554	7 062
Transkei Yamaha	-	2 195
Trillionaire Mind Inc	-	20 000
Truvelo Manufacturers	12 757	12 856
Tyekana Protection & Cleaning Pty Ltd	746 756	-
UD Trucks	-	6 539
Ubuntu Bam Farms	-	4 700
Umtimza Farmers	2 616	-
Umtiza Farmer's Corp	-	14 080
Unakho Business Solution	169 500	-
Ungavumi Yesu Soyiswe Pty Ltd	34 950	-
Van Schaik	9 214	-
Vanguard Fire and Safety Cape	3 648	2 918
Vodacom	-	2 382 683
Work Dynamics	43 471	-
	4 539 704	**6 159 811**

47. Budget differences

Management considers that under/overspeding of R300,000 to be reasonable as it is the tolerable amount to affect the change on the National Treasury Budget.

Statement of Financial Performance

FinPerf1.

Notes to the Annual Financial Statements

	2018	2017

47. Budget differences (continued)

The reason for the variance between budget and actual is due to the increase in distribution losses relating to electricity and slow payment in refuse service charges.

FinPerf2.

The reason for the variance is due to lease agreements that have expired and currently being renewed.

FinPerf3.

The reason for the variance is due to an improvement in revenue collection which resulted in less interest being accrued from outstanding debtors.

FinPerf4.

The reason for the variance is due to economic factors that affect revenue generation in this component.

FinPerf5.

The reason for the variance is due to an improvement in collection direct income.

FinPerf6.

The reason for the variance is increase in operating expenditure putting pressure on cash flows and the municipality's ability to invest excess cash.

FinPerf7.

The reason for the variance between budget and actual is due to an application for rollover that was disallowed and subsequently deducted from the equitable share.

FinPerf8.

The reason for the variance is due to improved traffic law enforcement by the municipality.

FinPerf9.

The reason for the variance is due to improved traffic law enforcement by the municipality.

FinPerf10.

The reason for the variance between budget and actual is as a result of the implementation of standardisation of salaries which put upward pressure on this class of expenditure.

FinPerf11.

The reason for the variance between budget and actual is a decrease in number of councillors due to demarcation processes.

FinPerf12.

The reason for the variance between budget and actual is assets that were completed during the year due to accelerated service delivery.

FinPerf13.

The reason for the variance between budget and actual is due a hall that was badly constructed and had to be impaired.

47. Budget differences (continued)

FinPerf14.

The reason for the variance between budget and actual is due to abrupt protests within the municipality that interrupted debt collection processes.

FinPerf15.

The reason for the variance between budget and actual is due to staff shortages in critical areas which affected the ability of employees to take leave.

FinPerf16.

The reason for the variance between budget and actual is due stricter controls being implemented by the municipality to manage expenditure.

FinPerf17.

The reason for the variance between budget and actual is due to increase in use of contracted services during the year as a result of unforeseen circumstances.

FinPerf18.

The reason for the variance between budget and actual is due stricter controls being implemented by the municipality to manage expenditure.

FinPerf19.

The reason for the variance between budget and actual is due the recognition of assets.

FinPerf20.

The reason for the variance between budget and actual is due to a fair value gain in the current financial year.

Statement of Financial Position

FinPos1.

The reason for the variance between budget and actual due to a decrease in collection.

FinPos2.

The reason for the variance between budget and actual due to an increase in debt collection.

FinPos3.

The reason for the variance between budget and actual is due to a decrease in working capital, costs and other expenditure.

FinPos4.

The reason for the variance between budget and actual is due to a fair value adjustment at year-end.

FinPos5.

The reason for the variance between budget and actual is due to the increase in accumulated depreciation for Mlungisi Mall & other municipal buildings.

Notes to the Annual Financial Statements

	2018	2017

47. Budget differences (continued)

FinPos6.

The reason for the variance between budget and actual is as a result of weaker cash flows which decreases the ability to invest in capital assets.

FinPos7.

The reason for the variance between budget and actual is due to a change in accounting system and related software’s.

FinPos8.

The reason for the variance between budget and actual is due to the commitments at year end.

FinPos9.

The reason for the variance between budget and actual is due to early settlement of creditors.

FinPos10.

The reason for the variance between budget and actual is due an increase in revenue from services.

FinPos11.

The reason for the variance between budget and actual is due to the current portion of employee benefit obligation not adequately budgeted for.

FinPos12.

The reason for the variance between budget and actual is due to the current portion of provisions which were over budgeted.

FinPos13.

The reason for the variance between budget and actual is due to the long-term portion of employee benefit obligation not adequately budgeted for.

Cash Flow Statement

C1.

The reason for the variance between budget and actual is due to decrease in payment behaviour of debtors.

C2.

The reason for the variance is due to weaker cash flows which result in less ability to generate interest from investments.

C3.

The reason for the variance between budget and actual is due to early payment of creditors.

C4.

The reason for the variance between budget and actual is due to delays in implementing some capital projects.